

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC 5878

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USDOC WASHDC

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BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

USMISSION GENEVA FOR USMTN

COMMERCE FOR ASSISTANT SECRETARY WEIL

E.O. 11652: NA

TAGS: EINV, EIND, LU

SUBJ: MONSANTO MAY CLOSE LUXEMBOURG PLANT

1. I MET WITH MONSANTO EUROPEAN CHAIRMAN C. PRESTON
CUNNINGHAM, MONSANTO TEXTILES DIRECTOR JOHN L. TULEY

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AND LUXEMBOURG MONSANTO PLANT MANAGER WALTER CLINE
ON AUGUST 8 TO DISCUSS THE FUTURE OF THE COMPANY'S PLANT
AT ECHTERNACH. THE PLANT, WHICH PRODUCES NYLON
YARNS, HAS SUFFERED HEAVY LOSSES OVER THE PAST 40 MONTHS--
ALMOST 9.5 MILLION DOLLARS IN 1976 AND OVER 6.5 MILLION
DOLLARS IN THE FIRST EIGHT MONTHS OF 1977. THE MONSANTO
OFFICIALS TOLD ME THAT AFTER INTENSIVE CONSULTATIONS AT

COMPANY HEADQUARTERS IN ST. LOUIS THEY SEE ONLY TWO POSSIBLE OPTIONS: EITHER TO REDUCE THE WORK FORCE TO THE CURRENT PRODUCTION LEVEL OF 70 PERCENT, OR TO CLOSE THE PLANT. AS LUXEMBOURG OFFICIALS, INCLUDING ECONOMICS MINISTER MART, HAVE TOLD MONSANTO THAT THEY CAN DO NOTHING TO HELP THE FIRM REDUCE LOSSES, WHICH OPTION IS SELECTED WILL DEPEND ON MONSANTO'S FINAL ANALYSIS OF THE LONG-RANGE PROSPECTS FOR THE TEXTILE INDUSTRY IN EUROPE. THE MONSANTO OFFICIALS SAID THAT THEY EXPECTED A FINAL DECISION TO BE MADE IN MID-SEPTEMBER.

2. IF THE DECISION IS A REDUCTION-IN-FORCE, THE MONSANTO OFFICIALS SAID THAT THIS WOULD BE CONSIDERED A STOP-GAP MEASURE DESIGNED TO HOLD LOSSES TO A MORE TOLERABLE LEVEL PENDING AN INDUSTRY RECOVERY. THEY SEE NO PROSPECTS FOR SUCH A RECOVERY UNTIL THE SUPPLY/DEMAND EQUILIBRIUM IS REACHED WITHIN THE EC WHICH THEY DO NOT ANTICIPATE BEFORE THE 1980'S UNDER THE BEST OF CIRCUMSTANCES. BUT THEY ARE NOT SANGUINE ABOUT THE PROSPECTS EVEN THEN GIVEN THE PROBLEM IN INCREASING TEXTILE IMPORTS FROM THE NON-EC COUNTRIES, ESPECIALLY IN THE FAR EAST, AND THE ITALIAN GOVERNMENT'S PRACTICES OF SUBSIDIZING UNECONOMIC COMPETITORS SUCH AS MONTEDISON IN ITALY. FINALLY, IN LUXEMBOURG'S CASE, THERE IS THE ADDITIONAL FACTOR OF THE HIGH WAGE LEVELS HERE (MONSANTO'S FIBRE PLANT IN SCOTLAND HAS BEEN ABLE TO REMAIN marginally PROFITABLE, THEY SAID, BECAUSE AMONG OTHER LIMITED OFFICIAL USE

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THINGS LABOR COSTS ARE SO MUCH LOWER THERE THAN IN LUXEMBOURG).

3. SINCE THE MONSANTO PLANT EMPLOYS ABOUT 1,000 WORKERS (550 LUXEMBOURGERS AND 450 GERMANS) CONSTITUTING ABOUT PERCENT OF LUXEMBOURG'S INDUSTRIAL LABOR FORCE, THE ECONOMIC REPERCUSSIONS OF CLOSING THE PLANT WOULD OBVIOUSLY BE SERIOUS. SO WOULD THE POLITICAL REPERCUSSIONS. SINCE THE WAR, LUXEMBOURG HAS HAD NO UNEMPLOYMENT. ON THE CONTRARY, THERE HAS BEEN A SHORTAGE OF WORKERS AND AS A RESULT ABOUT 25 PERCENT OF THE WORK FORCE IS FOREIGN WORKERS. BUT FOR THE LAST THREE YEARS, LUXEMBOURG HAS BEEN SUFFERING FROM A RECESSION, PARTICULARLY IN THE STEEL INDUSTRY, AND THEY FACE THE PROSPECT OF SOME UNEMPLOYMENT FOR THE FIRST TIME SINCE THE WAR. THE BELGIAN-LUXEMBOURG MMRA STEEL COMPANY, WHICH EMPLOYES 800 LUXEMBOURG WORKERS AND ABOUT 1400 BELGIANS IN ITS LUXEMBOURG PLANT, IS ON THE VERGE OF BANKRUPTCY AND MAY BE FORCED TO SHUT ITS DOORS IN THE NEXT MONTH. THUS, THE STATE OF THE ECONOMY HAS BECOME THE MOST IMPORTANT POLITICAL ISSUE IN THE COUNTRY AND, AS PRIME MINISTER THORN TOLD ME IN A CONVERSATION I HAD WITH HIM TWO WEEKS AGO, THE THREAT OF UNEMPLOYMENT IS THE MOST CRUCIAL ASPECT OF THAT ISSUE. HOW THE THORN

GOVERNMENT HANDLES THE COUNTRY'S PRESENT ECONOMIC DIFFICULTIES
WILL UNDOUBTELY DETERMINE THE RESULTS
OF THE 1979 ELECTION. KNOWING THIS, THE PRIME MINISTER
HAS TOLD ME THAT HE INTENDS TO TAKE OVER THE ECONOMICS
PORTFOLIO NEXT MONTH WHEN ECONOMIC MINISTER MART LEAVES.

4. IF THE FIRST OR, IF RODANGE SHOULD HAPPEN TO CLOSE
DOWN FIRST, EVEN THE SECOND SIGNIFICANT UNEMPLOYMENT
IN LUXEMBOURG SINCE THE WAR, INVOLVING TWO PERCENT OF THE
WORK FORCE IN
ONE GULP, COMES AS A RESULT OF THE ACTION OF AN AMERICAN
MULTINATIONAL COMPANY, IT WILL NOT BE MONSANTO BUT AMERICAN
BUSINESS GENERALLY THAT WILL BE BLAMED. THERE HAS BEEN NO
CRITICISM IN THIS COUNTRY OF AMERICAN BUSINESS AND THE
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FEARS HAVE NOT BEEN VOICED HERE, AS THEY HAVE BEEN ELSEWHERE
IN EUROPE, OF THE DANGERS INHERENT IN PERMITTING THE ECONOMY
TO BECOME OVERLY DEPENDENT ON CORPORATE DECISIONS MADE IN
THE BOARD ROOMS OF AMERICAN COMPANIES. AS A RESULT, LUXEMBOURG
HAS BEEN AN EXCELLENT ENVIRONMENT FOR AMERICAN BUSINESS. IF
MONSANTO CLOSES ITS PLANT, THOSE FACTORS WILL CHANGE
AND I WOULD SUPPOSE THAT, IN TERMS OF THE CRITICISM OF THE
OPERATIONS OF AMERICAN MULTINATIONAL COMPANIES ABROAD, THE
CONSEQUENCES WILL ALSO BE FELT OUTSIDE THE GRAND DUCHY.

5. I MADE THE POINTS IN PARAGRAPHS THREE AND FOUR ABOVE
TO THE MONSANTO EXECUTIVES AND SAID, AT THE SAME TIME, THAT
WE WOULD DO WHATEVER WE COULD TO BE HELPFUL TO THEM IN
TERMS OF REPRESENTING THE INTERESTS OF AMERICAN BUSINESS
ABROAD BUT THAT WE HAD NO SOLUTIONS TO OFFER.
I FOUND THEM AWARE OF AND SENSITIVE TO THE
POLITICAL FACTORS INVOLVED--SOME OF WHICH HAD, OF COURSE,
BEEN RAISED IN CONVERSATIONS THEY HAVE HAD WITH ECONOMICS
MINISTER AND WITH LUXEMBOURG'S AMBASSADOR TO THE
UNITED STATES. BUT MONSANTO IS CAUGHT IN A BIND AND I
FEEL AFTER MY MEETING, THAT THEY ARE TENDING IN
THE DIRECTION OF CLOSING THE PLANT COMPLETELY. THE
MONSANTO OFFICIALS PROMISED THAT THEY WOULD KEEP IN TOUCH
WITH ME, WITH STATE AND COMMERCE AND WITH GOL OFFICIALS.
AT THEIR LAST MEETING WITH ECONOMICS MINISTER MART IN
JULY, HE HAD ASKED THEM TO GIVE HIM AS MUCH ADVANCE NOTICE
AS POSSIBLE OF THEIR DECISION AND SAID THAT HE WANTED TO
BE ABLE TO GIVE PRIME MINISTER THORN ENOUGH TIME TO APPEAL
ANY DECISION TO CLOSE THE MONSANTO PLANT TO THE "HIGHEST
LEVELS IN THE UNITED STATES GOVERNMENT." LOWENSTEIN

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